BAK
economic intelligence

Sustainability of financial policy 2025

Results

11.11.2025

Inhalt

Question

- The combination of the BAK Taxation Index (tax burden) and the sustainability of fiscal policy provides a comprehensive picture of the tax attractiveness of a location.
- The sustainability of a location's fiscal policy is a gauge of the health of the public budget and thus of the durability of the current tax level:
  - At sustainably financed locations, the tax level is secured in the longer term
  - Tax increases loom at unsustainably financed locations
- This module of the BAK Taxation Index aims to answer the question of how sustainable the fiscal policy of the Swiss cantons is in national and European comparison.

Link to EU method and adjustments

- The starting point is the EU's Debt Sustainability Monitor 2024 study from 2025:
  - The EU's Debt Sustainability Monitor is a comprehensive monitoring of the sustainability of the fiscal policies of the EU Member States, which is published periodically.
  - The study contains a sustainability indicator "fiscal gap" (EU indicator S1), to which our study is linked. One advantage of the method is that a decomposition of the sustainability indicator into its components is possible.
- Adjustments within the framework of the BAK Taxation Index:
  - Until the 2021 issue, the EU had used a medium-term definition of the S1 indicator. Since 2023, the EU has been using a new long-term definition (time horizon of almost 50 years).
  - BAK Economics adheres to a medium-term view. This means: The time horizon is set at 12 years, as in analyses from the pre-Covid era.
  - The values of the EU states shown here were recalculated by BAK Economics for the medium-term horizon.
  - Due to the shorter time horizon compared to the EU-study, the fiscal starting point is given greater weight. As a result, cantons or states with a solid financial base perform better than others than they would have if we were to consider a longer time period.

Sustainability indicator I

- Sustainable primary balance ratio = primary balance ratio that would have to be achieved annually from the base year (2025) onwards in order to reach a gross debt ratio of 60% (Maastricht criterion) by the end of the period under consideration (12 years after the base year).

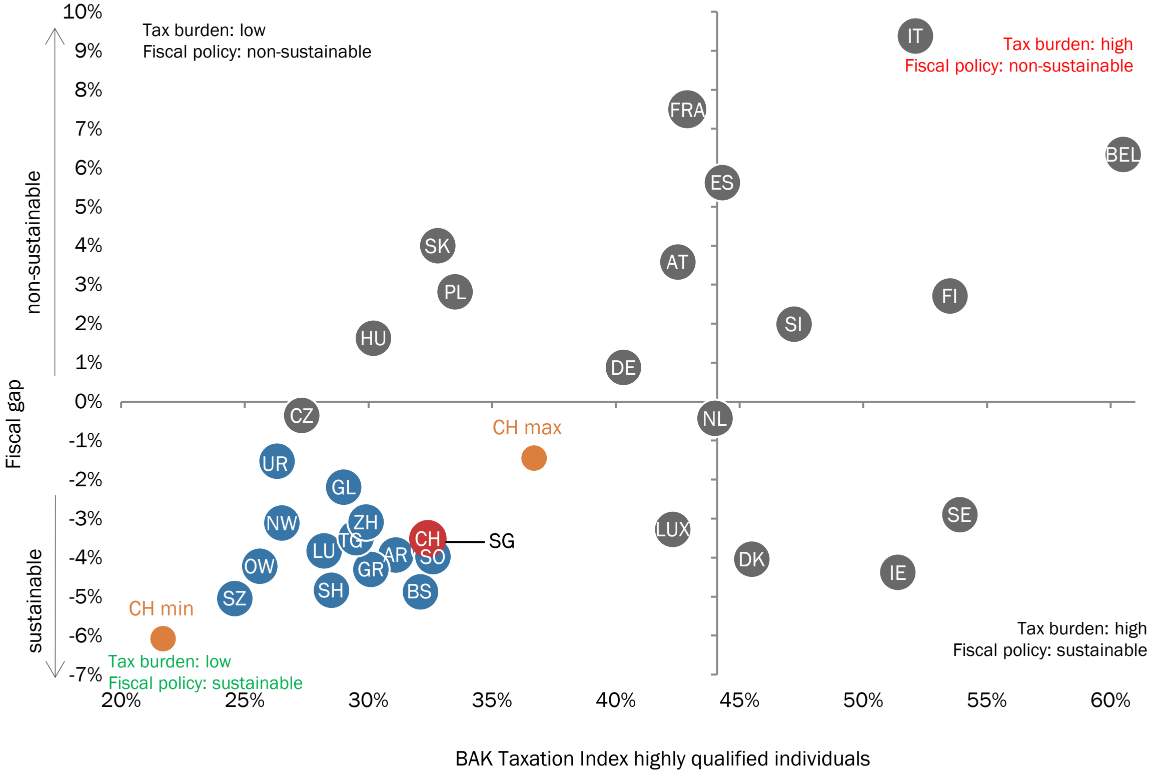
- Fiscal gap = sustainable primary balance ratio - base year primary balance ratio
  - Interpretation of the indicator: The fiscal gap indicates the extent by which the primary balance ratio of the base year would have to be adjusted in order to reach the gross debt ratio of 60%.
  - Characteristics of the indicator: The larger the fiscal gap, the less sustainable fiscal policy is. Positive values mean that an improvement in the primary balance ratio is necessary to achieve the target; negative values mean that the target can also be achieved with a deterioration in the primary balance ratio.

Sustainability indicator II

- Influencing factors covered:
  - Public debt → Imbalances from the past
  - Primary balance → Current state of the budget
  - GDP projections → Revenue development
  - Expenditure projections → Consideration of demographic change

- Detailed description of the methodology in the methodology report (available only in german)

Sustainability and BAK Taxation Index for the highly qualified individuals



Remarks:

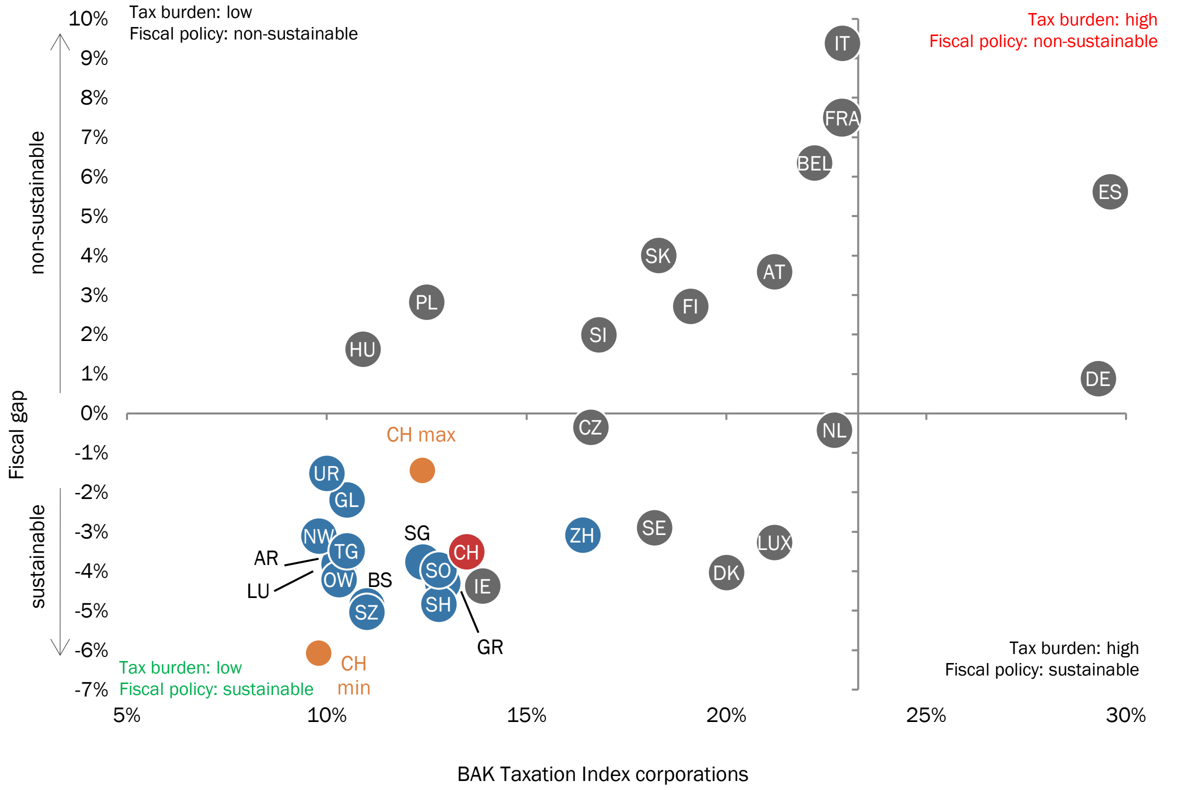
X-axis: EATR tax burden (i.e. effective tax burden) for the highly qualified individuals (single person without children, after-tax income EUR 100,000) in the main (economic) locations in 2024 (Swiss cantons) or 2023 (international locations); X-axis intersects Y-axis at the average EATR tax burden of the countries shown.

Y-axis: Fiscal gap = extent by which the primary balance ratio of the base year (2025) would have to be adjusted in order to achieve a gross debt ratio of 60% 12 years later; positive values: target achievement requires improvement of the primary balance ratio; negative values: target achievement ensured even with deterioration.

Of the Swiss cantons, all project sponsors are shown in blue and the canton with the smallest (CH min = most sustainable canton) and the canton with the largest fiscal gap (CH max = least sustainable canton) are shown in orange.

Source: BAK Economics

Sustainability and BAK Taxation Index for companies



Remarks:

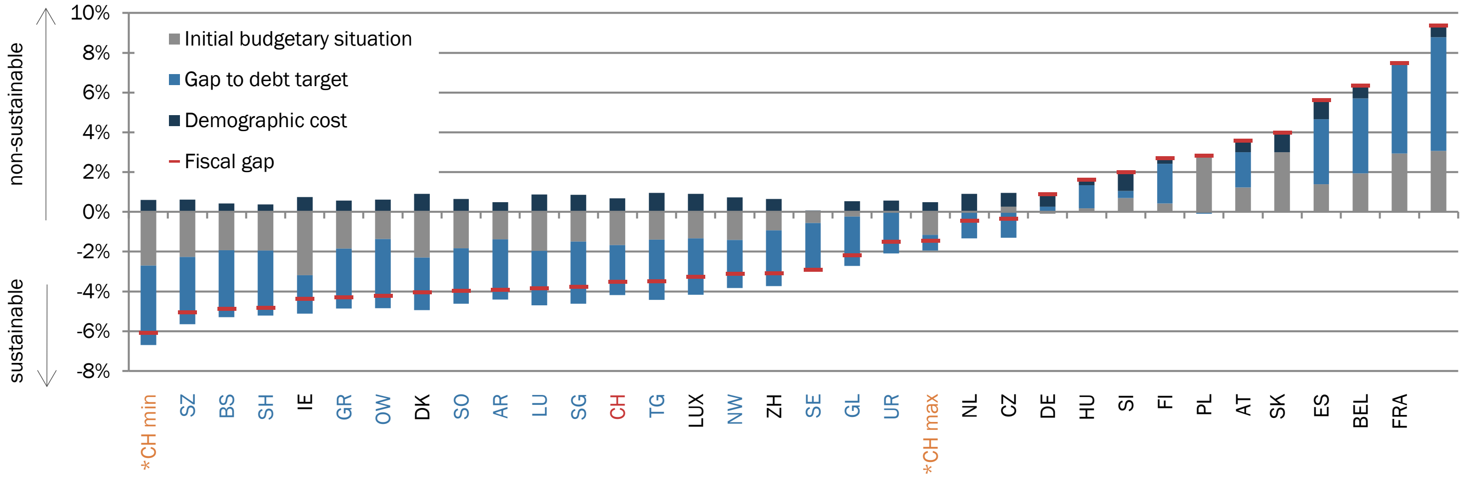
X-axis: EATR tax burden (i.e. effective tax burden) for companies in the main (economic) locations in 2024 (Swiss cantons) or 2023 (international locations); X-axis intersects Y-axis at the average EATR tax burden of the countries shown.

Y-axis: Fiscal gap = extent by which the primary balance ratio of the base year (2025) would have to be adjusted in order to achieve a gross debt ratio of 60% 12 years later; positive values: target achievement requires improvement of the primary balance ratio; negative values: target achievement ensured even with deterioration.

Of the Swiss cantons, all project sponsors are shown in blue, and the canton with the smallest (CH min = most sustainable canton) and the canton with the largest fiscal gap (CH max = least sustainable canton) are shown in orange.

Source: BAK Economics

Components of the sustainability indicator



Values ordered by fiscal gap. Fiscal gap = extent by which the primary balance ratio of the base year (2025) would have to be adjusted in order to achieve a gross debt ratio of 60% 12 years later; positive values: target achievement requires improvement of the primary balance ratio; negative values: target achievement ensured even with deterioration. Component "Fiscal starting position" = adjustment of the primary balance ratio needed to stabilise government debt when abstracting from demographic costs and the debt target of 60%; essentially reflects the fiscal position (primary balance ratio) in the base year. Distance from debt target" component = adjustment of the primary balance ratio needed to bridge the distance from the debt ratio in the base year to the targeted debt ratio of 60%; reflects the size of the debt ratio in the base year. Demographic cost component = adjustment to the primary balance ratio needed to support rising demographic-dependent expenditure. Swiss cantons (in blue) including their municipalities and the federal share allocated to them (incl. social security funds).

* For better classification, the canton with the lowest fiscal gap (CH min) and the largest fiscal gap (CH Max, 2025 = Uri) are shown.

Quelle: BAK Economics

Conclusion

- Measured against EU criteria, Swiss cantons have an overall sustainable fiscal policy. In comparison to the EU countries examined, their financial situation is in very good shape.
- The cantons' good performance is primarily due to their comparatively low debt ratios. In addition, many cantons benefit from stable financing results.
- Both the cantons and the EU member states are facing increased financing requirements. This is due, on the one hand, to past crises (including the euro crisis and the coronavirus pandemic) and, on the other hand, to demographic change, which is causing higher costs in the health and care sectors. For the cantons, the relief of the federal budget and the abolition of the imputed rental value are also leading to additional burdens and reduced revenues, respectively. However, thanks to their solid financial position, the cantons are generally well equipped to cope with these rising expenses.
- Thanks to their sustainable fiscal policy, the Swiss cantons are well positioned to secure their tax competitiveness in the long term.

References

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